

GREAT OAKS WATER COMPANY  
COMPLIANCE EXAMINATION  
OF THE AFFILIATE TRANSACTIONS RULES  
FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2017

GREAT OAKS WATER COMPANY

FOR THE YEARS ENDED  
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**INDEPENDENT ACCOUNTANT'S REPORT**

To The Board of Directors  
Great Oaks Water Company

We have examined Great Oaks Water Company's compliance with Rules I. through IX. of the Modified Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services ("The Affiliate Transaction Rules") for the period January 1, 2016 through December 31, 2017. Great Oaks Water Company's management is responsible for Great Oaks Water Company's compliance with those requirements. Our responsibility is to express an opinion on Great Oaks Water Company's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether Great Oaks Water Company has complied with The Affiliate Transaction Rules in all material respects. Our examination involved performing procedures on a test basis to obtain evidence about Great Oaks Water Company's compliance with The Affiliate Transaction Rules including other procedures that we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of Great Oaks Water Company's compliance with specified elements.

In our opinion, Great Oaks Water Company complied, in all material respects, with the requirements of The Affiliate Transaction Rules for the period January 1, 2016 through December 31, 2017.

This report is intended solely for the information and use of management of Great Oaks Water Company and the California Public Utilities Commission and is not intended to be and should not be used by anyone other than these specified parties.

PEASLEY, ALDINGER & O'BYMACHOW  
AN ACCOUNTANCY CORPORATION



Matt A. Peasley  
Certified Public Accountant

August 1, 2018

#### EXECUTIVE SUMMARY:

This examination addresses Great Oaks Water Company's compliance with Rule I. through Rule IX. of the Modified Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services (the Affiliate Transaction Rules) of the California Public Utilities Commission (the Commission). Our examination found that Great Oaks Water Company complied with all the Affiliate Transaction Rules except for noncompliance with Rule IV.C.

#### BACKGROUND:

The Commission adopted the Affiliate Transaction Rules in October of 2010, which provides rules for all Class A and B water and sewer utilities regarding affiliate transactions and the use of regulated assets and personnel for non-tariffed utility products and services. The Commission goals in adopting these rules are to protect ratepayers, to ensure the financial health of the utilities, and to prevent anti-competitive behavior in the competitive marketplace.

On April 22, 2014, the shareholders of Great Oaks Water Company agreed to transfer all of their shares to GOW Corporation (a newly formed Wyoming corporation) in exchange for 100% of the common shares of GOW Corporation. As a result of the exchange, Great Oaks Water Company became a wholly owned subsidiary of GOW Corporation effective March 12, 2015. As part of the agreement, Great Oaks Water Company transferred certain assets and liabilities to GOW Corporation. The assets transferred were cash and investment assets that were not related to the utility assets of Great Oaks Water Company. Liabilities transferred were related to the investment assets transferred. The reason for the transfer was to separate unregulated assets and liabilities from regulated assets and liabilities. The transfers described above were approved by the California Public Utilities Commission on March 12, 2015, in Decision 15-03-006.

#### AUDIT PURPOSE AND OBJECTIVE:

The purpose of this examination is to comply with Rule VIII.E. of the Affiliate Transaction Rules. The audit covers the last two calendar years and shall verify that the utility has complied with the Affiliate Transaction Rules. Management of Great Oaks Water Company interprets this rule as applying to Rule I. through Rule IX. only of the Modified Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services because the Order in the Commission Decision 10-10-019 dated October 14, 2010, defines that the Affiliate Transaction Rules I. through IX. supersede prior adopted affiliate transaction rules and that Rule X. regarding non-tariffed products and services, supersede prior non-tariffed product and services rules. Since the audit requirement is included in Rule VIII.E. which is included in Rule I. through Rule IX., the audit requirements apply to those items only.

#### AUDIT SCOPE AND METHODOLOGY:

The audit is for the period January 1, 2016 to December 31, 2017. The procedures included inspection of Great Oaks Water Company's books, records, source documents, and accounting procedures, annual reports to the California Public Utilities Commission, and interviews with employees and management.

Great Oaks Water Company  
Affiliate Transaction Rules  
January 1, 2016 to December 31, 2017

RESULTS:

We noted an exception to the Affiliate Transaction Rule IV.C. as explained in Appendix A.

## **RULE I – Jurisdiction and Applicability**

### **I.A.**

These Rules apply to all Class A and Class B California public utility water and sewer corporations or companies subject to regulations by the California Public Utilities Commission (Commission).

#### Great Oaks Water Company (GOWC) Compliance:

GOWC affirms that the Rules for Water and Sewer Utilities Regarding Affiliate Transactions (Affiliate Transaction Rules) and the use of Regulated Assets for Non-Tariffed Utility Services apply to GOWC.

#### Peasley, Aldinger & O’Bymachow, an Accountancy Corporation (PAO) Conclusion:

We reviewed the 2016 and 2017 Annual Reports to the Public Utilities Commission State of California (Annual Reports) of GOWC. Those reports listed active service connections in excess of 20,000, which classify the utility under the Commission as a Class A Public Utility. Therefore, Affiliate Transaction Rules apply to GOWC.

### **I.B.**

These Rules apply to transactions between a Commission-regulated utility and another affiliated entity that is engaged in the provision of products that use water or sewer services or the provision of services that relate to the use of water or sewer services, including the utility’s parent company, and to the utility’s use of regulated assets for non-tariffed utility services, unless specifically modified or exempted by the Commission. Transactions between a Commission-regulated utility and an affiliated utility regulated by a state regulatory commission (whether the utility is located in California or elsewhere) are exempt from these Rules, except for provisions of Rule IV.B. and Rule X.

#### GOWC Compliance:

GOWC believes that Rule 1.B. applies to the Company and its parent in due to the provision of services that relate to the use of water or sewer services.

#### PAO Conclusion:

We discussed GOWC’s organization with GOWC management regarding it and its affiliate (its parent company GOW Corporation) and have determined that transactions between them are covered by these rules.

### **I.C.**

Utilities shall comply with all applicable State and Federal statutes, laws and administrative regulations.

#### GOWC Compliance:

GOWC believes that it has and will comply with all applicable State and federal statutes, laws, and administrative regulations to which it is subject.

#### PAO Conclusion:

GOWC has confirmed to us during our examination that it believes that it complied with all State and federal statutes, laws, and administrative regulations to which it is subject. During our examination, we did not observe any instances of noncompliance with State and federal statutes, laws, and administrative regulations.

### **I.D.**

Existing Commission rules for each utility and its parent company continue to apply except to the extent they conflict with these Rules. In such cases, these Rules supersede prior rules and guidelines, provided that nothing herein shall preclude (1) the Commission from adopting other utility-specific guidelines; or (2) a utility or its parent company from adopting other utility-specific guidelines, with advance Commission approval through Decision or Resolution. In the case of ambiguity regarding whether a conflict exists, there shall be a rebuttable presumption that these Rules apply.

GOWC Compliance:

GOWC believes that Rule I.D.'s meaning is that these Affiliate Transaction Rules supersede prior rules if the prior rules conflict with the Affiliate Transaction Rules.

PAO Conclusions:

Based upon our review of the Affiliate Transaction Rules, we believe that GOWC's understanding of Rule I.D. is correct.

**I.E.**

Where these Rules do not address an item currently addressed in a utility's existing rules imposed by this Commission which govern that utility's transactions with its affiliate(s) or its use of regulated assets for non-tariffed utility services, the existing utility-specific rules continue to apply for that item only.

GOWC Compliance:

GOWC believes that Rule I.E.'s meaning is that existing rules will apply if an item currently addressed in existing rules is not addressed by the Affiliate Transaction Rules.

PAO Conclusions:

Based upon our review of the Affiliate Transaction Rules, we believe that GOWC's understanding of Rule I.E. is correct.

**I.F.**

These Rules do not preclude or stay any form of civil relief, or rights or defense thereto, that may be available under state or federal law.

GOWC Compliance:

GOWC believes that meaning of Rule I.F. is that the Affiliate Transaction Rules do not preclude or stay any form of civil relief, or rights or defenses thereto, that may be available under state or federal law.

PAO Conclusions:

Based upon our review of the Affiliate Transaction Rules, we believe that GOWC's understanding of Rule I.F. is correct.

**I.G.**

A California utility which is also a multi-state utility and subject to the jurisdiction of other state regulatory commissions, may file an application with this Commission, served on all parties to this proceeding and its most recent general rate case, requesting a limited exemption from these Rules or a part thereof, for transactions between the utility solely in its capacity serving its jurisdictional areas wholly outside of California, and its affiliates if such out-of-state operations do not substantially affect the utility's operations and the operating costs inside California. The applicant has the burden of proof.

GOWC Compliance:

GOWC asserts that it is not a multi-state utility and, therefore, Rule I.G. does not apply to GOWC.

PAO Conclusions:

Based upon our review of the Company's Annual Reports and discussions with management confirmed that GOWC provides utility services entirely within the State of California. Therefore, Rule I.G. does not apply to GOWC.

**I.H.**

A California utility's affiliates that operate entirely outside of California are exempt from Rule III.B. and Rule III.C. of these Rules, for transactions between the utility and such affiliates if the affiliates' operations do not substantially affect the utility's operations and the operating costs inside California.

GOWC Compliance:

GOWC believes that GOW Corporation is considered the “parent company” or “parent” of GOWC because GOW Corporation owns the regulated utility. GOW Corporation has real estate investments and rental operations outside the State of California and transactions between GOW Corporation and GOWC do not substantially affect the utility’s operations and the operating costs inside of California.

PAO Conclusions:

We have concluded based on our examination of records and discussions with management of GOWC that GOW’s rental operations, lending activities, and land investment activities operate outside the State of California and that their operations do not substantially affect GOWC’s operations.

**I.I.**

These Rules shall be interpreted broadly, to effectuate the Commission’s stated objectives of protecting consumer and ratepayer interests and, as an element thereof, preventing anti-competitive conduct.

GOWC Compliance:

GOWC affirms Rule I.I. means that the Affiliate Transaction Rules are to be interpreted broadly.

PAO Conclusions:

Based upon our review of the Affiliate Transaction Rules, we believe that GOWC’s understanding of Rule I.I. is correct.

**RULE II – Definitions**

**II.A. “Parent company” or “parent”**

“Parent company” or “parent” is the entity, including a holding company or corporation, that owns, or has substantial operational control (as defined in Rule II.E.) of, the regulated utility.

**II.B. “Utility”**

“Utility” (unless specified as a water utility) refers to all water utilities and sewer utilities regulated by the Commission.

**II.C. “Water utility”**

“Water utility” refers to all water utilities regulated by the Commission.

**II.D. “Sewer utility”**

“Sewer utility” refers to all sewer utilities regulated by the Commission.

**II.E. “Affiliate”**

“Affiliate” means any entity whose outstanding voting securities are more than 10 percent owned, controlled, directly or indirectly, by a utility, by its parent company, or by any subsidiary of either that exerts substantial operational control.

For purposes of these Rules, “substantial operational control” includes, but is not limited to, the possession, directly or indirectly of the authority to direct or cause the direction of the management or policies of a company. A direct or indirect voting interest of more than 10 percent by the utility in an entity’s company creates a rebuttable presumption of substantial operational control.

For purposes of these Rules “affiliate” includes the utility’s parent company, or any company that directly or indirectly owns, controls, or holds the power to vote more than 10 percent of the outstanding voting securities of a utility or its parent company.



Regulated subsidiaries of a utility, the revenues and expenses of which are subject to regulation by the Commission and are included by the Commission in establishing rates for the utility, are not included within the definition of affiliate for the purpose of these Rules. However, these Rules apply to all interactions any such regulated subsidiary has with other affiliated unregulated entities covered by these Rules.

For the purposes of this Rule, “affiliate” shall not include a mutual water company, a joint powers authority, other governmental or quasi-governmental agency or authority, a public/private partnership, a watermaster board, a water basin association, or a groundwater management authority in which a utility participates or in which a utility is a member or shareholder.

#### **II.F. “Costs”**

“Costs” are used in these Rules to refer to the total expenses assigned or allocated to different projects or activities through the utility’s and parent company’s accounting systems. Cost categories include:

1. **Direct Costs.** Direct costs are costs that can be clearly identified to specific projects or activities because the resource in question, or some measurable portion of that resource, has been dedicated to the project or activity. An example would be the hours of a worker’s time spent on the effort, materials purchased and used specifically on that effort, or the proportion of a machine’s hours dedicated to the effort.
2. **Direct Overhead Costs.** For organizations that produce multiple outputs, direct overhead costs are the common costs of a subset of the organization, such as supervisors and support staff of a division not assigned or traceable to specific projects, or machinery shared among a subset of the company’s projects. Such overhead costs require allocation to specific projects through proxies and methodologies designed to accurately reflect the particular production aspects of each project; e.g., some processes are more capital-intensive than others and need less supervision input. Allocation methodologies for direct overhead costs can make use of several factors, often activity-based and often using “costs causation” as one of the principles in their design.
3. **Indirect Overhead Costs.** Indirect overhead costs are functions that affect the entire organization, such as the headquarters building, the Chief Executive Officer and Chief Financial Officer, General Counsel and associated legal support, personnel departments, security for this building or these offices, shareholder and public relations, insurance, depreciation, advertising, and similar functions. These are real costs of the organization and must be allocated to the ongoing projects and activities to determine the total cost of each. These are also sometimes called “General Overhead Costs.”
4. **Fully-loaded (also known as fully-allocated) costs.** Fully-loaded (or fully-allocated) costs refer to the total cost of a project or activity, which is the sum of Direct, Direct Overhead, and Indirect Overhead costs, as defined in Rule II.F.1. 2. and 3.

#### **II.G. “Transaction”**

“Transaction” means any transfer of an item of value such as a good, service, information or money between a utility and one or more of its affiliates.

#### **II.H. “Property”**

“Property” refers to any right or asset, tangible or intangible, to which an entity has legal or equitable title.

#### **II.I. “Real Property”**

“Real Property” refers to any interest in real estate including leases, easements, and water rights.

#### **II.J. “Customer”**

“Customer” means any person, firm, association, corporation or governmental agency supplied or entitled to be supplied with water, wastewater, or sewer service for compensation by a utility.

**II.K. “Customer information”**

“Customer information” means non-public information and data specific to a utility customer which the utility acquired or developed in the course of its provision of utility services.

**II.L. “Cross-subsidy”**

“Cross-subsidy” means the unauthorized over-allocation of costs to captive ratepayers resulting in under-allocation of costs to a utility affiliate.

GOWC Compliance:

GOWC affirms the definitions of Rule II.A. through II.L.

PAO Conclusion:

GOWC has confirmed to us its agreement of the definitions in Rule II.A. through II.L. Our review of the Affiliate Transaction Rules agrees with the definitions as it applies to GOWC and GOW Corporation.

**RULE III – Utility Operations and Service Quality**

**III.A.**

A utility shall not allow transactions with affiliates to diminish water utility staffing, resources, or activities in a manner that would result in degradation of the reliability, efficiency, adequacy, or cost of utility service or an adverse impact on customer service. Utility management attention shall not be diverted to such transactions in a way that would result in such degradation. The utility’s parent and affiliates shall not acquire utility assets at any price if such transfer of assets would impair the utility’s ability to fulfill its obligation to serve or to operate in a prudent and efficient manner.

GOWC Compliance:

GOWC believes that it has not allowed transactions that would diminish water utility staffing, resources, or activities in a manner that would result in a degradation of the reliability, efficiency, adequacy, or cost of service or an adverse impact on customer service. Also, GOWC believes that it has not allowed transactions that would divert management attention in a way that would result in such degradation. The parent has not acquired any utility assets.

PAO Conclusion:

Based on our review of GOWC records, Annual Reports, interviews with GOWC employees, and discussions with GOWC management, we found no significant transactions between GOWC and GOW Corporation. Therefore, we believe that there have been no transactions described in Rule III.A. that have resulted in a degradation of the reliability, efficiency, adequacy, or cost of service or an adverse impact on customer service, nor have they impaired the utility’s ability to fulfill its obligation to serve or to operate in a prudent and efficient manner.

**III.B.**

Except as otherwise provided by these Rules, a utility shall not

1. Provide leads to its affiliates;
2. Solicit business on behalf of its affiliates;
3. Acquire information on behalf of or to provide to its affiliates;
4. Share market analysis reports or any other types of proprietary or non-publicly available reports, including but not limited to market, forecast, planning or strategic reports, with its affiliates, except that a utility may share such information with a parent under the condition that the parent does not share the information with any other entity;

5. Request authorization from its customers to pass on customer information exclusively to its affiliates;
6. Give the appearance that the utility speaks on behalf of its affiliates; or
7. Represent that, as a result of the affiliation with the utility, its affiliates or customers of its affiliates will receive any different treatment by the utility than the treatment the utility provides to other, unaffiliated companies or their customers.
8. Provisions 3, 4 and 5 of Rule III.B. shall not apply to utility affiliates which are non-profit and whose sole purpose is to serve the functions of regulated utilities, the parents of regulated utilities, governmental or non-profit entities, including non-profit affiliates of regulated utilities.
9. Utilities may file an Advice Letter seeking an exemption to Rule III.B.8. within ninety days of the effective date of the Commission decision adopting these rules, requesting that a non-profit affiliate subject to Rule III.B.8. be allowed to serve the functions of other affiliates, as long as those other affiliates provide no more than five per cent of the annual revenues of the non-profit affiliate.

GOWC Compliance:

GOWC believes that it has not engaged in any of the items 1. through 9. above for the period January 1, 2016 to December 31, 2017.

PAO Conclusion:

Based on our review of GOWC records, Annual Reports, and discussions with GOWC management, we believe that GOWC and GOW Corporation did not engage in any items described in Rule III.B.

**III.C.**

Except as provided for elsewhere in these rules, if a utility provides customer or utility information, services, or unused capacity or supply to an affiliate, it must offer such customer or utility information, services, or unused capacity or supply to all similarly situated market participants in a non-discriminatory manner, which includes offering on a timely basis.

GOWC Compliance:

GOWC believes that it has not engaged in any of the items described in Item III.C. above for the period January 1, 2016 to December 31, 2017.

PAO Conclusion:

Based on our review of GOWC records, Annual Reports, and discussions with GOWC management, we believe that GOWC and GOW Corporation have not engaged in any items described in Rule III.C.

**RULE IV – Separation**

**IV.A.**

The utility shall maintain accounting records in accordance with Generally Accepted Accounting Principles, the Commission's Uniform System of Accounts, Commission decisions and resolutions, and the Public Utilities Code.

GOWC Compliance:

GOWC affirms that it has policies and procedures in place to maintain and that it maintains its accounting records in accordance with Generally Accepted Accounting Principles (GAAP), the Commission's Uniform System of Accounts, Commission decisions and resolutions, and the Public Utilities Code.

PAO Conclusion:

We reviewed the audited financial statements of GOWC for the year ended December 31, 2012, the last year that the Company's financial statements were audited. The audit reported that the Company's financial statements were presented in conformity with GAAP. GOWC has confirmed to us that they believe that they maintain its accounting records in accordance with GAAP, the Commission's Uniform System of Accounts, Commission decisions and resolutions, and the Public Utilities Code. We reviewed the Company's books for the years ended December 31, 2016 and 2017, and confirmed that GOWC uses the Uniform System of Accounts for Class A Water Utilities.

**IV.B.**

The utility, its parent and other affiliated companies shall allocate common costs among them in such a manner that the ratepayers of the utility shall not subsidize any parent or other affiliate of the utility.

GOWC Compliance:

GOWC does not believe that it has allocated any common costs between GOWC and GOW Corporation.

PAO Conclusion:

Based on our review of Company records and discussions with GOWC management we believe that there have been no significant common costs allocated between GOWC and GOW Corporation during 2016 and 2017.

**IV.C.**

The utility shall list all shared directors and officers between the utility and its affiliates in its annual report to the Commission. Not later than 30 days following a change to this list, the utility shall notify the Director of the Division of Water and Audits and the Director of the Division of Ratepayer Advocates of the change(s).

GOWC Compliance:

GOWC did not list shared directors and officers of GOWC and GOW Corporation in its annual report as required under Rule IV.C. and therefore, has not complied with this rule. GOWC will be filing an amendment to its annual report to list the single shared officer and director between GOWC and its parent company GOW Corporation. This information was previously provided to the Commission in Application (A.) 14-04-035.

PAO Conclusion:

Our review of 2016 and 2017 annual reports did not list shared directors or officers of GOWC and GOW Corporation. Our inquiry with management of GOWC indicated that John W. S. Roeder was the only shared director and officer during the period January 1, 2016 through December 31, 2017, and there were no changes to the list of shared officers and directors during that time period. However, since the shared officer and director of GOWC and GOW Corporation was not listed in the 2016 and 2017 annual reports, we believe that GOWC has not complied with Rule IV.C.

**IV.D.**

Employees transferred or temporarily assigned from the utility to an affiliate shall not use non-public, proprietary utility information gained from the utility in a discriminatory or exclusive fashion to the benefit of the affiliate to the detriment of unaffiliated competitors.

GOWC Compliance:

GOWC has not transferred or temporarily assigned any employees from GOWC to GOW Corporation.

PAO Conclusion:

Based on our review of Company records, discussions with GOWC management, and interviews with GOWC employees we believe that there have were no employees transferred or temporarily assigned from the GOWC to GOW Corporation from January 1, 2016 to December 31, 2017.

**IV.E.**

All employee movement between a utility and its affiliates, as defined in Rule I.B., shall be consistent with the following provisions:

**IV.E.1.**

A utility shall track and report to the Commission all employee movement between the utility and affiliates, consistent with Rule VIII.F.

GOWC Compliance:

GOWC has not transferred or temporarily assigned any employees from GOWC to GOW Corporation. There has been no movement of employees between the utility and its parent company.

PAO Conclusion

Based on our review of Company records, discussions with GOWC management, and interviews with GOWC employees we believe that there has been no employee movement between GOWC and GOW Corporation from January 1, 2016 to December 31, 2017.

**IV.E.2.**

When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 15% of the employee's base annual compensation. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment on an annual basis, or as otherwise necessary to ensure that the utility's ratepayers receive the fees. This transfer payment provision does not apply to clerical workers.

GOWC Compliance:

GOWC has not transferred or temporarily assigned any employees from GOWC to GOW Corporation.

PAO Conclusion

Based on our review of Company records, discussions with GOWC management, and interviews with GOWC employees we believe that there has been no employee movement between GOWC and GOW Corporation from January 1, 2016 to December 31, 2017. Therefore, the provisions of Rule IV.E.2. do not apply to GOWC for that same period.

**IV.E.3.**

Utility employees may be used on a temporary or intermittent basis (less than 30% of an employee's chargeable time in any calendar year) by affiliates only if:

- a. All such use is documented, priced and reported in accordance with these Rules and existing Commission reporting requirements, except that when the affiliate obtains the services of a non-executive employee, compensation to the utility shall be priced at a minimum of the greater of fully loaded cost plus 5% of direct labor cost, or fair market values. When the affiliate obtains the services of an executive employee, compensation to the utility shall be priced at a minimum of the greater of fully loaded cost plus 15% of direct labor cost, or fair market value;
- b. Utility needs for utility employees always take priority over any affiliate requests;
- c. No more than 10% of full time equivalent utility employees may be on loan at a given time;
- d. Utility employees agree, in writing, that they will abide by these Rules; and
- e. Affiliate use of utility employees shall be conducted pursuant to a written agreement approved by the appropriate utility and affiliate officers.

GOWC Compliance:

GOWC believes that no utility employee has been used by its Parent for the period January 1, 2016 to December 31, 2017.

PAO Conclusion

Based on our review of Company records, discussions with GOWC management, and interviews with GOWC employees we believe that there have been no utility employees used on a temporary or intermittent basis from January 1, 2016 to December 31, 2017.

**RULE V – Shared Corporate Support**

**V.A.**

A utility, its parent company, or a separate affiliate created solely to perform corporate support services may share with its affiliates joint corporate oversight, governance, support systems, and personnel as further specified in the Rules. Any shared support shall be priced, reported and conducted in accordance with these Rules as well as other applicable Commission pricing and reporting requirements.

GOWC Compliance:

GOWC believes that its parent corporation was not created to solely perform corporate support services. Therefore, it believes that Rule V. does not apply to it.

PAO Conclusion:

Based on our review of Company records and discussions with GOWC management we believe that there was no significant shared corporate support during the period January 1, 2016 to December 31, 2017.

**V.B.**

Corporate support shall not be shared in a manner that allows or provides a means for the transfer of confidential information from the utility to the affiliate, creates the opportunity for preferential treatment or unfair competitive advantage, leads to customer confusion, or creates significant opportunities for cross-subsidy of affiliates. The restriction on transfer of confidential information from the utility to the affiliate does not apply to corporate support, shared services and access to capital.

GOWC Compliance:

GOWC affirms that it has adequate procedures to comply with Rule V.B. in its Compliance Plan for Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services (the Compliance Plan). In particular, the Compliance Plan documents the procedures for reimbursing the utility for services of GOWC used by corporate affiliates. In the period January 1, 2016 through December 31, 2017, GOWC believes that it has not shared corporate support between it and its Parent in any significant manner.

PAO Conclusion:

Based on our review of Company records and discussions with GOWC management we believe that there have been no significant shared common costs between GOWC and GOW Corporation in the period January 1, 2016 to December 31, 2017, that would lead to the transfer of confidential information from GOWC to GOW Corporation.

**V.C.**

Examples of services that may be shared include: corporate governance and oversight, payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment policies), employee records, regulatory affairs, lobbying, legal, and pension management, engineering, water or sewage for resale, water storage capacity, and purchasing of water distribution systems.

GOWC Compliance:

GOWC affirms that it may share the services listed in Rule V.C., however, it believes that it has not shared items listed above in any significant manner.

PAO Conclusion:

Our examination included reading Rule V.C. and discussions with management of GOWC. We are in agreement with GOWC regarding Rule V.C. that it may share services listed in Rule V.C. with its parent GOW Corporation. Based on our review of Company records we believe that no significant amount of services listed in Rule V.C. were shared with GOW Corporation during the period January 1, 2016 to December 31, 2017.

**V.D.**

Examples of services that may not be shared include: hedging and financial derivatives and arbitrage services, and marketing.

GOWC Compliance:

GOWC affirms that it may not share the services listed in Rule V.D. and has not shared such services during the period January 1, 2016 through December 31, 2017.

PAO Conclusion:

Our examination included reading Rule V.D. and discussions with management of GOWC. We are in agreement with GOWC regarding Rule V.D. that it may not share services listed in Rule V.D. with its parent GOW Corporation. Based on our review of Company records we believe that no services listed in Rule V.D. were shared with GOW Corporation during the period January 1, 2016 to December 31, 2017.

**RULE VI – Pricing of Goods and Services between the Utility and Its Affiliate(s)**

To the extent that these Rules do not prohibit the transfer of goods and services between a utility and its affiliates:

**VI.A.**

Transfers from the utility to its affiliates of goods and services offered by the utility on the open market will be priced at fair market value.

GOWC Compliance:

GOWC believes that there has been no significant transfer of goods and services between the utility and its affiliates during the period January 1, 2016 to December 31, 2017.

PAO Conclusion:

Based upon our review of Company records and discussions with management, we believe that there has been no significant transfer of goods and services from GOWC to GOW Corporation during the period of January 1, 2016 to December 31, 2017.

**VI.B.**

Transfers from an affiliate to the utility of goods and services offered by the affiliate on the open market shall be priced at no more than fair market value.

GOWC Compliance:

GOWC has not made any transfer of good and services from an affiliate to the utility during the period January 1, 2016 to December 31, 2017.

PAO Conclusion:

Based upon our review of Company records and discussions with management, we believe that there has been no significant transfer of goods and services from GOW Corporation to GOWC during the period of January 1, 2016 to December 31, 2017.

**VI.C.**

For goods or services for which the price is regulated by a state agency, that price shall be deemed to be the fair market value, except that in cases where more than one state commission regulates the price of goods or services, this Commission's pricing provisions govern.

GOWC Compliance:

GOWC believes that since there has not been any transfer of goods and services, this rule does not apply during the period January 1, 2016 to December 31, 2017.

PAO Conclusion:

Based upon our review of Company records and discussions with management, we believe that there has been no transfer of goods and services for which the price is regulated by a state agency from or to GOWC from or to GOW Corporation during the period of January 1, 2016 to December 31, 2017.

**VI.D.**

Goods and services produced, purchased or developed to be offered on the open market by the utility shall be provided to the utility's affiliates and unaffiliated companies on a nondiscriminatory basis, except as otherwise required or permitted by these Rules or applicable law.

GOWC Compliance:

GOWC believes that since there has not been any transfer of goods and services, this rule does not apply during the period January 1, 2016 to December 31, 2017.

PAO Conclusion:

Based upon our review of Company records and discussions with management, we believe that there has been no significant transfer of goods and services to GOW Corporation during the period of January 1, 2016 to December 31, 2017, that were produced, purchased or developed to be offered on the open market on a nondiscriminatory basis by GOWC.

**VI.E.**

Transfers from the utility to its affiliates of goods and services not produced, purchased or developed to be offered on the open market by the utility shall be priced at fully allocated costs plus 5% of direct labor cost.

GOWC Compliance:

GOWC believes that since there has not been any transfer of goods and services, this rule does not apply during the period January 1, 2016 to December 31, 2017.

PAO Conclusion:

Based upon our review of Company records and discussions with management, we believe that there have been no significant transfer of goods and services to GOW Corporation during the period of January 1, 2016 to December 31, 2017, that were not produced, purchased or developed to be offered on the open market by GOWC.

**VI.F.**

Transfers from an affiliate to the utility of goods and services not produced, purchased or developed to be offered on the open market by the affiliate shall be priced at the lower of fully loaded cost or fair market value.



GOWC Compliance:

GOWC believes that since there has not been any transfer of goods and services, this rule does not apply during the period January 1, 2016 to December 31, 2017.

PAO Conclusion:

Based upon our review of Company records and discussions with management, we believe that there have been no significant transfer of goods and services to GOWC during the period of January 1, 2016 to December 31, 2017, that were not produced, purchased or developed to be offered on the open market by GOW Corporation.

**VI.G.**

The utility shall develop a verifiable and independent appraisal of fair market value for any goods or services that are transferred to any affiliated company at fair market value under these Rules. The Commission's staff shall have access to all supporting documents used in the development of the fair market value. If sufficient support for the appraisal of fair market value does not exist to the reasonable satisfaction of the Commission's staff, the utility shall hire an independent consultant acceptable to the Commission staff to reappraise the fair market value for these transactions.

GOWC Compliance:

GOWC believes that since there has not been any transfer of goods and services, this rule does not apply during the period January 1, 2016 to December 31, 2017.

PAO Conclusion:

Based upon our review of Company records and discussions with management, we believe that there have been no significant transfer of goods and services from GOWC to GOW Corporation during the period of January 1, 2016 to December 31, 2017, therefore, Rule VI.G. does not apply for that period.

**RULE VII – Financial Health of the Utility**

**VII.A.**

The parent shall provide the utility with adequate capital to fulfill all of its service obligations prescribed by the Commission.

GOWC Compliance:

GOWC believes that GOW Corporation has provided GOWC with adequate capital to fulfill all of its service obligations prescribed by the Commission.

PAO Conclusion:

Our examination included reading Rule VII.A., review of 2016 and 2017 Annual Reports to the California Public Utilities Commission, and discussions with management. Annual reports for 2016 and 2017 appear to reflect that GOWC has been provided adequate capital to fulfill all of its service obligations.

**VII.B.**

If the parent is publicly traded, the utility shall notify the Director of the Commission's Division of Water and Audits and the Director of the Division of Ratepayer Advocates in writing within 30 days of any downgrading to the bonds of the parent, another affiliate, and/or the utility, and shall include with such notice the complete report of the issuing bond rating agency.

GOWC Compliance:

GOWC believes that Rule VII.B. does not apply because GOW Corporation is not publicly traded.

PAO Conclusion:

GOWC has confirmed to us that GOW Corporation is not a publicly traded company. (Our understanding of a company that is “publicly traded” is a company that has issued its stock that is traded in a public market). During the Company’s reorganization in 2015, shares of GOW Corporation were exchanged with shares held by shareholders of GOWC prior to the reorganization. GOWC was not considered a publicly traded company. Therefore, we agree with GOWC, that Rule VII.B. does not apply to GOWC because GOW Corporation is not publicly traded.

**VII.C.**

The creation of a new affiliate by the parent or another affiliate shall not adversely impact the utility’s operations and provision of service.

GOWC Compliance:

GOWC affirms that it or its parent has not created any new affiliates during the period January 1, 2016 to December 31, 2017.

PAO Conclusion:

Based upon our discussions with management, GOW Corporation has not created any new affiliates during the period January 1, 2016 to December 31, 2017. Therefore, Rule VII.C. does not apply during the period January 1, 2016 to December 31, 2017.

**VII.D.**

Debt of the utility’s parent or other affiliates shall not be issued or guaranteed or secured by the utility.

GOWC Compliance:

GOWC believes that since GOW Corporation has no debt, therefore there is no debt that has been issued or guaranteed by the utility.

PAO Conclusion:

Based upon our discussions with management we believe that there have been no debt issued by GOW Corporation during the period January 1, 2016 to December 31, 2017 nor has any debt of GOW Corporation been guaranteed by GOWC. Therefore, Rule VII.D. does not apply during the period January 1, 2016 to December 31, 2017.

**VII.E.**

Financial Separation. Within three months of the effective date of the decision adopting these Rules, each utility with a parent company shall file a Tier III advice letter proposing provisions that are sufficient to prevent the utility from being pulled into bankruptcy of its parent company. The process specified by the Advice Letter Filing shall include a verification that the provisions have been implemented and signed by the utility’s senior management (e.g., the Chief Executive Officer, Chief Financial Officer, and General Counsel).

GOWC Compliance:

GOWC believes that Rule VII.E. does not apply because GOWC did not have a parent company at the time the Rule was adopted, therefore, no Tier III advice letter was required.

PAO Conclusion:

Our examination included reading Rule VII.E., GOWC’s 2015 Reorganization Agreement, and discussions with management. Since GOWC did not have a parent company within three months of the enactment of the decision adopting these Rules, Rule VII.E. does not apply to GOWC.

**VII.F.**

Rules VI, VII, VIII(B) and VIII(C) adopted in Decision 97-12-011 (applicable to California Water Service Company), and Rule 12, 13, 15 and 16 adopted in Decision 98-06-068 (applicable to Golden State Water Company), continue in effect for those companies only.

GOWC Compliance:

GOWC believes that Rule VII.F does not apply because the Rule only applies to California Water Service Company or Golden State Water Company.

PAO Conclusion:

Since Rule VII.F. applies to California Water Service Company and Golden State Water Company, Rule VII.F. does not apply to GOWC.

**RULE VIII – Regulatory Oversight**

**VIII.A.**

The officers and employees of the utility and its affiliated companies shall be available to appear and testify in any proceeding before the Commission involving the utility. If, in the proper exercise of the Commission staff's duties, the utility cannot supply appropriate personnel to address the staff's reasonable concerns, then the appropriate staff of the relevant utility affiliated companies including, if necessary, its parent company, shall be made available to the Commission staff.

GOWC Compliance:

GOWC confirms that the officers and employees of the utility and its affiliated companies (if any) shall be available to appear and testify in any proceeding before the Commission involving the utility.

PAO Conclusion:

We inquired with management and received confirmation that they would make all officers and employees of the GOWC and GOW Corporation available to appear and testify in any proceeding before the Commission involving the utility.

**VIII.B.**

The utility and its affiliated companies shall provide the Commission, its staff, and its agents with access to the relevant books and records of such entities in connection with the exercise by the Commission of its regulatory responsibilities in examining any of the costs sought to be recovered by the utility in rate proceedings or in connection with a transaction or transactions between the utility and its affiliates. The utility shall continue to maintain its books and records in accordance with all Commission rules. The utility's books and records shall be maintained and housed available in California.

GOWC Compliance:

GOWC confirms that access to the books and records of the utility and affiliated companies will be provided to the Commission, its staff, and its agents in connection with the exercise of the Commission's regulatory responsibilities. GOWC also confirms that it has and will maintain its books and records in accordance with all Commission rules and that its books and records has and will be maintained and housed available in its California offices.

PAO Conclusion:

Management of GOWC has confirmed to us that access to the books and records of the utility and GOW Corporation would be made available to the Commission, its staff, and its agents in connection with the exercise of the Commission's regulatory responsibilities. Management also confirmed to us that it will maintain its books and records in accordance with Commission rules at its offices in California. All books and records of GOWC that were used during our examination were located at Company offices in San Jose, California.

**VIII.C.**

**Compliance Plans.** Each utility shall include a compliance plan as part of its annual report, starting in 2011 with the 2010 annual report and biennially thereafter. The compliance plan shall include:

1. A list of all affiliates of the utility, as defined in Rule II.D., and for each affiliate a description of its purposes or activities, and whether the utility claims that Rule I.B. makes any portion of these Rules applicable to the affiliate;
2. A description of the procedures in place to assure compliance with these Rules; and
3. A description of both the specific mechanisms and the procedures that the utility and parent company have in place to assure that the utility is not utilizing the parent company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules in any respect. The description shall address, but shall not be limited to (a) the dissemination of information transferred by the utility to an affiliate covered by these Rules, (2) the provision of services to its affiliates covered by these Rules or (c) the transfer of employees to its affiliates covered by these Rules in contravention of these Rules. A corporate officer from the utility and parent company shall verify the adequacy of these specific mechanisms and procedures to ensure that the utility is not utilizing the parent company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules.

GOWC Compliance:

GOWC has included a compliance plan as part of its Annual Report to the Public Utilities Commission State of California including items 1. through 3. of Rule VIII.C.

PAO Conclusion

Our examination included review of the Annual Reports to the Public Utilities Commission State of California for the years ended December 31, 2016 and 2017. Those reports included a compliance plan including information required in items 1. through 3. of Rule VIII.C.

**VIII.D.**

**New Affiliates.** Upon the creation of a new affiliate, the utility shall immediately notify the Commission of its creation, as well as posting notice of this event on its web site. No later than 60 days after the creation of this affiliate, the utility shall file an information-only filing, as provided for in Rule 6.1 of General Order 96-B, with the Director of the Commission's Division of Water and Audits, with service on the Director of the Division of Ratepayer Advocates. The advice letter shall state the affiliate's purpose or activities and whether the utility claims these Rules are applicable to the new affiliate, and shall include a demonstration to the Commission that there are adequate procedures in place that will assure compliance with these Rules. The advice letter may include a request, including supporting explanation, that the affiliate transaction rules not be applied to the new affiliate. If the utility requests that the affiliate transaction rules not be applied to the new affiliate, in lieu of an information-only filing, the utility shall file a Tier 2 advice letter making such a request, including an explanation of why these Rules should not apply to the new affiliate.

GOWC Compliance:

GOWC has not created any new affiliates in the period January 1, 2016 to December 31, 2017.

PAO Conclusion:

Our examination included discussions with management of GOWC. Based upon responses from management, there have been no new affiliates created during the period January 1, 2016 to December 31, 2017.

**VIII.E.**

**Independent Audits.** Commencing in 2013, and biennially thereafter, the utility shall have an audit performed by independent auditors if the sum of all unregulated affiliates' revenue during the last two calendar years exceeds 5% of the total revenue of the utility and all of its affiliates during that period. The audits shall cover the last two calendar years which end on December 31, and shall verify that the utility is in compliance with these Rules. The utility shall submit the audit report to the Director of the Division of

Water and Audits and the Director of the Division of Ratepayer Advocates no later than September 30 of the year in which the audit is performed. The Division of Water and Audits shall post the audit reports on the Commission's web site. The audits shall be at shareholder expense.

GOWC Compliance:

GOWC confirms its responsibility to have independent audits performed under the conditions of Rule VIII.E. which it believes applies to Rule I. through Rule IX. of the Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the use of Regulated Assets for Non-Tariffed Utility Services listed in Appendix A.

PAO Conclusion:

Management of GOWC has confirmed to us their responsibility to have audits performed under the conditions of Rule VIII.E. at shareholder expense. Management interprets this rule as applying to Rules I. through Rules IX. only of the Affiliate Transaction Rules. Based upon management's interpretation of Rule VIII.E. GOWC has complied with the requirement to have an independent audit performed for the period January 1, 2016 through December 31, 2017 with the performance of this report.

**VIII.F.**

**Annual Affiliate Transaction Reports.** Each year, by March 31, the utility shall submit a report to the Director of the Division of Water and Audits and the Director of the Division of Ratepayer Advocates that includes a summary of all transactions between the utility and its affiliated companies for the previous calendar year. The utility shall maintain such information on a monthly basis and make such information available to the Commission's staff upon request. The summary shall include a description of each transaction and an accounting of all costs associated with each transaction although each transaction need not be separately identified where multiple transactions occur in the same account (although supporting documentation for each individual transaction shall be made available to the Commission staff upon request). These transactions shall include the following:

1. Services provided by the utility to the affiliated companies;
2. Services provided by the affiliated companies to the utility ;
3. Assets transferred from the utility to the affiliated companies;
4. Assets transferred from the affiliated companies to the utility;
5. Employees transferred from the utility to the affiliated companies;
6. Employees transferred from the affiliated companies to the utility;
7. The financing arrangements and transactions between the utility and the affiliated companies;
8. Services provided by and/or assets transferred from the parent holding company to the affiliate company which may have germane utility regulation impacts; and
9. Services provided by and/or assets transferred from affiliated company to the parent holding company which may have germane utility regulation impacts.

GOWC Compliance:

GOWC confirms its responsibility to submit a report that includes a summary of all transactions between the GOWC and GOW Corporation by March 31 each year for the previous calendar year. GOWC has filed an Affiliate Transaction Report, included with its Annual Report to the Public Utilities Commission State of California for the year ended December 31, 2016 and 2017, and believes that it has complied with Rule VIII.F. Regarding bullet point 7 specifically, GOWC believes this rule applies to long-term debt only since only long-term debt must be approved by the CPUC. Furthermore, all types of short-term payables to affiliated companies are reported annually in Schedule A-46 of the Annual Report. (Schedule A-29 in 2016).

PAO Conclusion:

We reviewed the GOWC Report on Affiliated Transactions included in its 2016 and 2017 Annual Reports to the Public Utilities Commission State of California. Our review determined that the reports included the information required by Rule VIII.F. items 1. through item 9. Based upon GOWC's interpretation of the Rule.

**RULE IX – Confidentiality**

Any records or other information of a confidential nature furnished to the Commission pursuant to these Rules that are individually marked Confidential are not to be treated as public records and shall be treated in accordance with P. U. Code §583 and the Commission's General Order 66-C, or their successors.

GOWC Compliance:

GOWC confirms that it will individually mark records of a confidential nature as "Confidential".

PAO Conclusion:

We inquired with management regarding its responsibility to mark certain records as "Confidential". Per our inquiry with management, management has affirmed its compliance with Rule IX. Management has also informed us that no records have been marked as "Confidential" during the period January 1, 2016 to December 31, 2017.